

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6125

BILL NUMBER: HB 1048

NOTE PREPARED: May 4, 2011

BILL AMENDED: Apr 11, 2011

SUBJECT: Public Pension Funds.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR: Sen. M. Young

BILL STATUS: Enrolled

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill makes the following changes:

(1) *Pre-1990 Line-of-Duty Disability Determinations*- The bill allows a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) (or survivor of a member) who applied for disability prior to 1990 and is receiving a disability benefit to apply to a local board for a recommendation as to whether the member's disability occurred in the line of duty. It provides that the local board shall make a recommendation of its findings to the 1977 Fund Advisory Committee (Committee). It provides that the Committee shall make an initial determination of whether the member's disability occurred in the line of duty. The bill also provides that if the Committee fails to timely provide an initial determination, the default determination will be made by the Public Employees' Retirement Fund (PERF) Medical Authority. It provides that the PERF Board makes a final determination of whether the member's disability occurred in the line of duty. The bill also establishes procedures to appeal: (A) a recommendation by the local board; (B) an initial determination by the Committee; or (C) an initial default determination made by the PERF Medical Authority. It requires that a member or survivor apply to the local board within two years of the receipt of a PERF Board's notice that the PERF Board has received a favorable ruling from the Internal Revenue Service.

(2) *DROP and the Partial Lump Sum Distribution*- The bill provides that an active member of the 1977 Fund who has entered the Deferred Retirement Option Plan (Drop) before July 1, 2011, may elect to exit the DROP and receive a partial lump sum distribution. It provides that a 1977 Fund member who enters the DROP after June 30, 2011, may not elect to receive a partial lump sum distribution.

(3) *13th Check*- The bill provides a thirteenth check to participants of the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Officers' Retirement Fund.

(4) *Quasi-governmental Entities*: The bill repeals or deletes provisions in the statutes governing the following quasi-governmental entities that give those entities the option of establishing a code of ethics for their employees or being under the jurisdiction of the State Ethics Commission (The State Ethics Commission statute provides that these entities are "agencies" for purposes of the commission's jurisdiction): (A) Indiana Finance Authority. (B) Indiana Bond Bank. (C) PERF. (D) Indiana State Teachers' Retirement Fund. (E) Board for Depositories. (F) Indiana Housing and Community Development Authority. (G) Ports of Indiana. (H) Bureau of Motor Vehicles Commission. (I) Indiana Homeland Security Foundation. (J) Indiana Natural Resources Foundation. (K) Indiana White River State Park Development Commission. (L) State Fair Commission. (M) State Student Assistance Commission. (N) Indiana Grain Indemnity Corporation. (O) Indiana Political Subdivision Risk Management Commission.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: Upon passage; July 1, 2011.

Explanation of State Expenditures: (1) *Pre-1990 Line-of-Duty Disability Determinations*- As administrators of the 1977 Police Officers' and Firefighters' Pension and Disability Fund, PERF will incur a minimal expenditure of \$16,500 for filing fees and an outside counsel.

(Revised) (3) *13th Check*: The table below provides a summary of the impact of the 13th check provision for participants of the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Officers' Retirement Fund (C&E Plan).

The funds affected for the C&E Plan are the state General Fund, the Fish and Wildlife Fund for the Conservation Officers, the Enforcement and Administration Fund for the Excise Police, and dedicated funds for Gaming Enforcement.

Table 1. Summary Table for the C&E Plans.	
	C & E
Increase In Unfunded Accrued Liability	\$53,700
Increase in Annual Funding	na
Increase in Annual Funding as % of pay	na
Decrease in Funded Status	from 76.34% to 76.30%

Background Information- Table 2 shows the overall impact on the C&E Plan. Table 3 shows the number of C&E recipients of the 13th check by credited service and dollar amount for the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan.

Table 2. Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan
Impact of Proposed Benefit Changes as of July 1, 2010
Total (\$ in thousands)

	7/1/2009 Valuation Results Before Change Baseline	Description of Proposed Change	
Actuarial Accrued Liability		<u>Impact of Change</u>	<u>After Change</u>
Active & Inactive Members	\$54,256.4	-	\$54,256.4
<u>Pay Status Members</u>	<u>\$35,039.2</u>	<u>\$53.7</u>	<u>\$35,092.9</u>
Total	\$89,295.6	\$53.7	\$89,349.3
Actuarial Value of Assets	\$68,169.9	-	\$68,169.9
Unfunded Actuarial Accrued Liability	\$21,125.7	\$53.7	\$21,179.4
Funded Ratio	76.34%	-0.05%	76.30%
Valuation Payroll	\$25,238.3	-	\$25,238.3
Actual Contribution Rate, after smoothing	20.75%	0.00%	20.75%
Total cost after smoothing	\$5,237.0	-	\$5,237.0

Table 3. Calculation of Increase in Liability.			
Service	Count	13 th Check Amount	Total
blank*	3	\$325	\$975
0-10	4	\$125	\$500
10-20	11	\$235	\$2,585
20-30	74	\$325	\$24,050
>30	64	\$400	\$25,600
Total	156		\$53,710
*For those with no service listed, assumed service between 20 and 30 years.			

Explanation of State Revenues:

Explanation of Local Expenditures: (2) *DROP and the Partial Lump Sum Distribution*- The summary table below shows the impact of the DROP provisions and the partial lump sum distribution.

<i>Summary Table</i>	
Increase in Unfunded Actuarial Unfunded Accrued Liability	\$5 M
Decrease in Funded Ratio	97.99% to 97.84%
No Change in Contribution Rate	19.50%

Background Information-

1977 Police Officers' and Firefighters' Pension and Disability Fund Impact of Proposed Benefit Changes as of July 1, 2009 Total (\$ in millions)			
	7/1/2009 Valuation Results Before Change Baseline	Description of Proposed Change	
		<u>Impact of Change</u>	<u>After Change</u>
Actuarial Accrued Liability			
Active & Inactive Members	\$2,539.5	\$5.0	\$2,544.5
<u>Pay Status Members</u>	<u>793.2</u>	<u>-</u>	<u>\$793.2</u>
Total	\$3,332.7	\$5.0	\$3,337.7
Actuarial Value of Assets	\$3,265.6	-	\$3,265.6
Unfunded Actuarial Accrued Liability	\$67.1	\$5.0	\$72.1
Funded Ratio	97.99%	-0.15%	97.84%
Valuation Payroll	\$649.0		\$649.0
Actual Contribution Rate, after smoothing	19.50%		19.50%
Total cost after smoothing	\$126.6		\$126.6

Up until June 30, 2012, members in the DROP program as of July 1, 2011, (or actual amendment date) are allowed the option to elect between the DROP program or a benefit payable at retirement without reference to the DROP program payable under the partial lump sum option under the Plan.

The \$5 M estimate for the impact of the change in the actuarial accrued liability is a high-level estimate based on the assumed first-class salary of \$50,000 for all participants in the DROP. The estimate assumes approximately 270 members in the DROP for three years who are younger in age and service when electing the DROP (i.e., more heavily weighted to a retirement age of 52 and 20 years of service at the time of the DROP election). The actual impact will depend on the age and service of the participants in the DROP and the opportunity level of adverse selection due to adding the option to elect partial lump sum distribution.

The partial lump sum distribution option is actuarially equivalent to the benefit amount payable at retirement without the DROP.

Due to contribution rate smoothing under the plan, the contribution as a percentage of salary would remain at 19.50%.

Explanation of Local Revenues:

State Agencies Affected: All; Legislative Council; PERF as administrators of the 1977 Fund.

Local Agencies Affected: Units with members in the 1977 Fund.

Information Sources: Cindy Fraterrigo; Amy Beert, Price Waterhouse Coopers, actuaries for PERF and the PERF-managed funds; Chicago, IL 312-298-2134; www.pwc.com; Doug Todd, McCready & Keene, Inc., actuaries for the State Police, 317-576-1508; www.mcak.com

Fiscal Analyst: Chuck Mayfield, 317-232-4825.

DEFINITIONS

Actuarial Accrued Liability – The actuarial accrued liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal cost accruals, determined by the actuarial cost method.

Lump Sum Distribution: a payment to a plan participant or beneficiary for the entire amount in a retirement account as a single cash payment versus a series of payments over time.

Smoothing - An actuarial technique used to help plan sponsors manage cost volatility in benefit programs.